

Whitehall District Schools

REPORT ON FINANCIAL STATEMENTS
(with required supplementary information)

Year ended June 30, 2007

Whitehall District Schools

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Whitehall District Schools

Management Discussion and Analysis

For the Fiscal Year Ended June 30, 2007

The discussion and analysis of Whitehall District Schools' financial performance provides an overall review of the School District's financial activities for the fiscal year ended June 30, 2007. The intent of this Management Discussion and Analysis is to provide, in simple terms, a look at the District's past performance and current position. Readers may also review the financial statements, and notes to the financial statements to enhance their understanding of the District's financial performance.

This reporting model was adopted by the Governmental Accounting Standards Board (GASB) in their Statement No. 34 Basic Financial Statements – and Management Discussion and Analysis (MD&A) – for State and Local Governments issued in June of 2000. Certain comparative information between the current year and the prior year is typically presented in the MD&A.

Overview of the Financial Statements

This annual report consists of five parts: (1) management's discussion and analysis (this section), (2) the independent auditors' report, (3) the basic financial statements, (4) required supplementary information, and (5) combining financial statements. The financial statements include notes that explain some of the information in the statements by providing detailed data. These statements are followed by a section of required supplementary information that further explains and supports the financial statements, utilizing a comparison to the District's budget for the year. Additionally, the basic financial statements also include two kinds of statements that present different views of the District.

District-Wide Financial Statements

. These statements are full accrual basis statements that provide information about the District's **overall** financial status. They are used to help determine whether or not the District is in a better or worse financial position as a result of the year's activities. The **Statement of Net Assets** reports all of the District's assets and liabilities, both short-term and long-term, whether they are "currently available" or not. Capital assets and long-term obligations of the District are reported in this statement. All of the current year's revenues and expenses are accounted for in the **Statement of Activities**, regardless of when cash is received or paid.

Whitehall District Schools

Management Discussion and Analysis

For the Fiscal Year Ended June 30, 2007

The two district-wide statements report the District's *net assets* and how they have changed. Net assets – the difference between the District's assets and liabilities – is one way to measure the District's financial health or position.

- Over time, increases or decreases in net assets are an indicator of whether the District's financial position is improving or deteriorating.
- In order to accurately assess the District's overall health, the reader should also consider additional non-financial factors such as changes in the District's property tax base, the quality of the education provided, and the condition of the District's buildings.

In district-wide statements, the District's activities are classified as *governmental activities*. Governmental activities include most of the District's basic services, such as regular and special education, food service, athletics, transportation, and administration. Property taxes and state aid finance most of these services.

Fund Financial Statements

The fund financial statements focus on individual parts of the District, while reporting the District's operations in more detail than the district-wide statements. The fund level statements are reported on a *modified accrual basis*. Only those assets that are "*measurable*" and "*currently available*" are reported. Liabilities are recognized to the extent that they are expected to be paid with current financial resources.

Fund statements are formatted to comply with the legal requirements of the Michigan Department of Education's "Accounting Manual." In the State of Michigan, the District's major instructional and instructional support activities are reported in the *General Fund*. Additional activities are reported in their relevant funds including: *Special Revenue Funds* for *Food Service*, *Athletic* and *Community Service* activities, *Debt Service Funds*, *Capital Project Funds*, and *Fiduciary Funds*.

In fund financial statements, capital asset purchases are reported as expenditures in the year of acquisition. No asset is reported. The issuance of debt is recorded as a financial resource. The current year's payments of principal and interest on long-term obligations are recorded as expenditures. Future years' debt obligations are not recorded.

Whitehall District Schools

Management Discussion and Analysis

For the Fiscal Year Ended June 30, 2007

Financial Analysis of the District as a Whole

The net assets of the District at June 30, 2006 and June 30, 2007 amounted to approximately \$1.9 million and \$3.2 million respectively. Figure A-1 shows a condensed breakdown of the net assets.

Figure A-1
Comparative Condensed Statement of Net Assets

	Governmental Activities 6-30-06 (as restated)	Governmental Activities 6-30-07
Current assets	\$ 8,644,752	\$ 7,335,132
Capital assets	34,680,841	33,985,587
Other non-current assets	<u>625,499</u>	<u>575,336</u>
Total assets	<u>43,951,092</u>	<u>41,896,055</u>
Current liabilities	5,502,743	3,524,562
Non-current liabilities	<u>36,569,604</u>	<u>35,177,759</u>
Total liabilities	<u>42,072,347</u>	<u>38,702,321</u>
Net assets		
Invested in capital assets, net of related debt	(1,516,732)	(278,411)
Restricted for debt service	553,162	677,019
Unrestricted	<u>2,842,315</u>	<u>2,795,126</u>
Total net assets	<u>\$ 1,878,745</u>	<u>\$ 3,193,734</u>

The District uses its capital assets to provide services to students; consequently, these assets are not available for future spending. Although the District's investment in capital assets is reported net of related debt, it should be noted that the resources needed to repay the debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities. The remaining net assets represent resources that are either restricted for debt service or are unrestricted on how they may be used.

Whitehall District Schools

Management Discussion and Analysis

For the Fiscal Year Ended June 30, 2007

The net assets of the District increased by \$1,314,989 during the 2006-2007 year. Figure A-2 shows the breakdown of this change. The Statement of Activities presented later in the government-wide financial statements, provides greater detail on the District's annual activity. The cost of the District's governmental activities for the year was approximately \$25.1 million. However, the amount that the District's taxpayers ultimately financed for these activities was only \$18.6 million because \$2.5 million of the cost was paid for by those who benefited from the programs, and \$4 million was paid for by other governments and organizations who subsidized certain programs with grants and contributions. The remaining "public benefit" portion was paid for with property taxes, state pupil foundation aid, investment earnings, and other miscellaneous revenues.

Figure A-2
Comparative Statement of Activities
Governmental
Activities
6-30-06
(as restated)

		Governmental Activities 6-30-07
Revenues		
Program Revenues		
Charges for services	\$ 2,339,434	\$ 2,536,733
Operating grants and contributions	3,514,456	4,008,037
General revenues		
Property taxes	5,705,041	6,095,398
Unrestricted grants	12,843,941	13,597,462
Investment earnings	142,081	142,094
Other	<u>76,519</u>	<u>47,895</u>
Total revenues	24,621,472	26,427,619
Expenses		
Instruction	10,672,839	11,724,903
Support services	6,163,535	6,594,375
Community services	3,691,320	3,021,464
Food services	713,751	687,122
Athletics	406,740	418,063
Interest on long-term debt	2,359,445	1,736,095
Unallocated depreciation and amortization	<u>627,619</u>	<u>930,608</u>
Total expenses	24,635,249	25,112,630
Increase in net assets	(13,777)	1,314,989
Net Assets at beginning of year	<u>1,892,522</u>	<u>1,878,745</u>
Net Assets at end of year	<u>\$ 1,878,745</u>	<u>\$ 3,193,734</u>

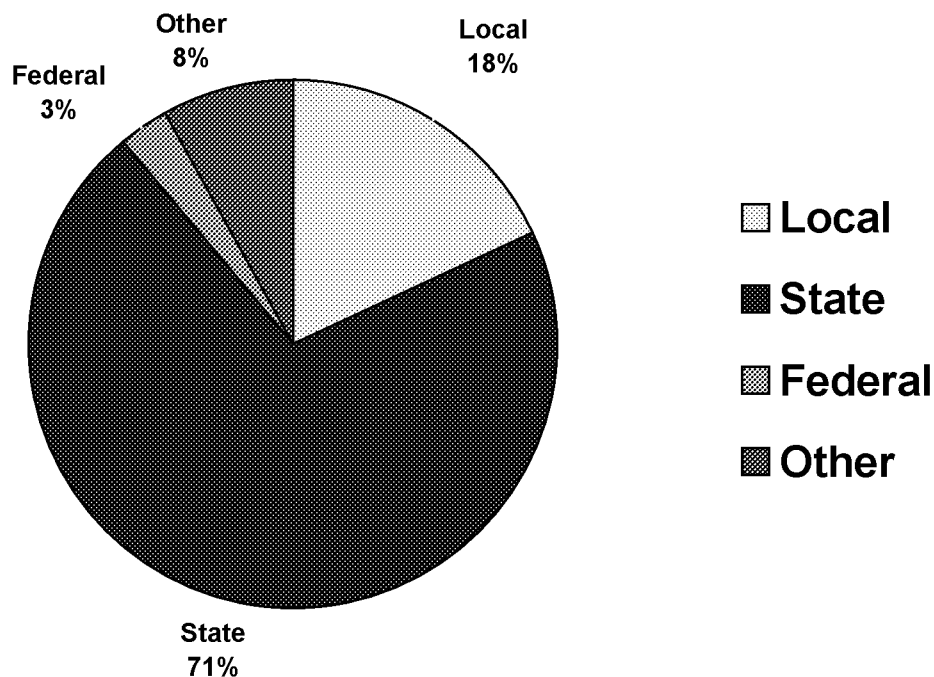
Whitehall District Schools

Management Discussion and Analysis

For the Fiscal Year Ended June 30, 2007

The majority of the District's General Fund revenues (71%) are received from State sources. This means that the financial stability of the District rests primarily with the economic health of the State of Michigan. The chart below depicts the breakdown of the sources of revenue for the District.

Figure A-3
Sources of Revenue for Fiscal Year 2006-2007



Other major funds in the District do not reflect the same breakdown of revenues. The Community Education fund's Local revenues comprise 28% of the total revenues, State revenues comprise 25% of the total and Federal revenue is a significantly higher 46% of their total revenue stream.

Overall, the District revenue stream is comprised of 30% Local, 53% State, and 11 % Federal dollars.

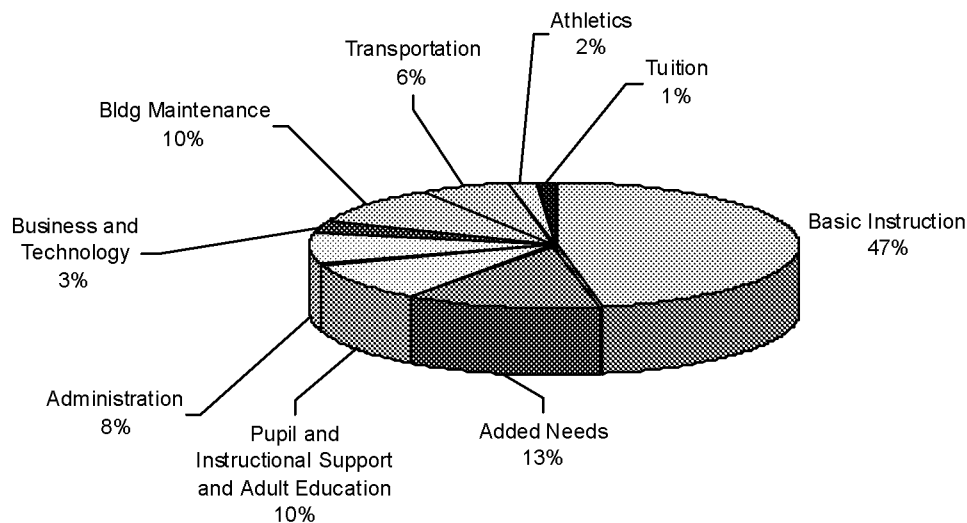
Whitehall District Schools

Management Discussion and Analysis

For the Fiscal Year Ended June 30, 2007

As the chart below indicates, 70% of the District's resources are spent on instruction and pupil and instructional support services and adult education. Another 8% is spent on administrative services necessary to efficiently operate the District, while 10% is spent for building operation and maintenance, including utilities and custodial services and 6% is spent on transportation. The final 6% is spent on other support services.

Figure A-4
Departmental Expenditures as Percentage of Total Budget



Whitehall District Schools

Management Discussion and Analysis

For the Fiscal Year Ended June 30, 2007

Financial Analysis of the District's Funds

The stable financial performance of the District as a whole is also reflected in its governmental funds. The combined governmental funds' equity increased during the 2006-07 fiscal year, resulting in total fund equity of approximately \$5.4 million at year end. The General Fund portion of the fund balance increased to \$3,180,887. The primary reasons for the increasing fund balance are as follows:

Factors Increasing Fund Equity

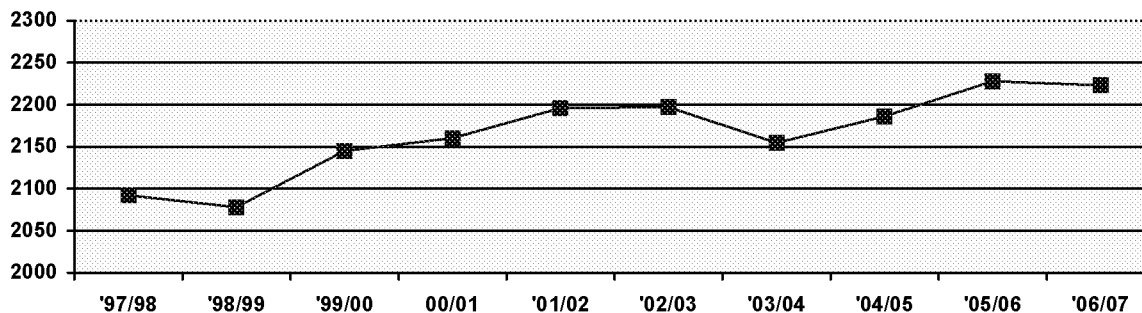
State Aid Act – Schools were given an increase of \$210 per pupil in the foundation grant and an additional \$23 equity payment. This increase provided the District with approximately \$465,000 of additional revenue for the 2006-2007 school year.

Factors Decreasing Fund Equity

Staffing – One counseling position was added for the 2006-2007 school year and a psychologist position that had remained unfilled because the District was unable to locate a qualified replacement was filled for the 2006-2007 school year. Additionally, two first grade staff were added in order to reduce class sizes. Contracts were settled with teaching and support staff which provided 2 % to 2.5% increases for the majority of staff.

Decreased enrollment – The District's pupil enrollment for state aid funding purposes decreased by 5 memberships. The following chart depicts the enrollment changes experienced by the District over the past ten years. The student increase resulted in a loss of \$35,425 in revenue to the District.

Figure A-5
Enrollment History: 1998 through 2006



Benefit Cost Increases – The District's cost for insurance premiums increased over the previous year by a moderate 1%. Retirement costs increased from 16.34% to 17.74%.

Whitehall District Schools

Management Discussion and Analysis

For the Fiscal Year Ended June 30, 2007

General Fund Budgetary Highlights

The Uniform Budget Act of the State of Michigan requires that the local Board of Education approve the original budget for the upcoming fiscal year prior to July 1, the start of the fiscal year. As a matter of practice, the District periodically amends its budget during the school year. These revisions are made in order to deal with unexpected changes in revenues and expenditures. The following analysis describes the reasons for changes in the budget during the year.

Revenues – There was a \$1,294,268 change in the total General Fund revenue budget from the beginning to the end of the year and \$1,340,641 difference in actual revenue from beginning budget. Over \$900,000 of this discrepancy resulted from the transfer of revenues for the adult education program from the community services fund to the general fund. There were significant changes in funding sources as follows:

- The **local source** revenue was greater than the original budget by \$66,705. The increase was related to higher than anticipated State Equalized Valuations, and increased income from the special education transportation consortium.
- The **state source** revenue was greater than the original budget by \$135,019. This increase was made as a result of the gain of 42 students combined with student foundation increase of \$210 per pupil. Additionally, the District received a middle school math science grant of approximately \$26,000.
- The **federal source** revenue was less than the original budget by \$18,251. The District allocation for Title I D funding for the county juvenile detention center was reduced by approximately \$15,000 and other grants were not fully expended.
- The **transfers from other governmental units** was greater than the original budget by \$1,157,168. This increase was a result of the addition of the adult education program to the general fund. Additionally, the District received approximately \$12,000 additional Medicaid revenue and \$100,000 additional county special education tax revenue.

Whitehall District Schools

Management Discussion and Analysis

For the Fiscal Year Ended June 30, 2007

Expenditures – There was a \$1,212,173 increase in the total General Fund expenditures from the original budget to the actual year-end expenditures. The significant changes by functional category are as follows:

- The *instructional services* expenses were greater than the original budget by \$380,713. The increase in instructional services was primarily related to the addition of the adult education program to District operations.
- The *supporting services* expenses were greater than the original budget by \$868,847. As with the instructional services budget, increases in supporting services was primarily related to the addition of adult education program to District operations.
- The *transfers to other governmental units* expenses were less than the original budget by \$43,457. Fewer children were enrolled in specialized programming in other districts than had been previously. Additionally, special education transportation that the District had previously provided on behalf of another District was provided by the Intermediate School District.

Capital Assets and Debt Administration

Capital Assets – A summary of the District's capital assets at year-end is outlined in Figure A-6.

Figure A-6 Summary of Capital Assets (Net of Depreciation)		
	June 30, 2006	June 30, 2007
Land	\$ 762,882	\$ 762,882
Construction in Progress	132,118	0
Building and improvements	32,543,790	32,046,212
Furniture and equipment	961,972	795,727
Vehicles	280,079	380,766
Total	\$ 34,680,841	\$ 33,985,587

The District purchased two buses and a van which accounted for the majority of capital asset acquisitions during the year.

Whitehall District Schools

Management Discussion and Analysis

For the Fiscal Year Ended June 30, 2007

Debt Administration – A summary of the District’s indebtedness is outlined in figure A-7.

Figure A-7		
Summary of Indebtedness		
	June 30, 2006 (as restated)	June 30, 2007
1992 Bond Issue	\$ 1,560,913	\$ 1,124,251
1997 Refunding Bond Issue	7,360,000	7,280,000
2001 Bond Issue	11,032,456	10,377,432
2005 Refunding Bond Issue	16,500,146	16,451,224
1998 Durant bond issue	141,677	141,677
School Bond Loan Fund	709,324	743,496
Capital lease & other loans	108,889	89,704
Sick leave pay	243,254	254,094
Total	\$ 37,656,659	\$36,461,878

Under State statute, the District is legally restricted from incurring long-term bonded debt in excess of 15% of the assessed value of taxable property within the school district. At June 30, 2007 the District’s net bonded debt of \$141,677 was well below the legal limit of approximately \$55 million.

General Fund

Analysis of Transactions and Fund Balance

In 2002-2003, the District began making budget reductions in response to executive order cuts from the State of Michigan. Further reductions were made in 2003-2004 and 2004-2005 in an attempt to operate more efficiently as it became clear that the financial shortfalls at the state level would result in small or no increases in the per pupil foundation. As a result of early cuts and unexpected increases in enrollment, the District is in sound financial condition.

The General fund balance increased by \$175,989 in the 2006-2007 year even though several positions have been added to the program. The primary reason for the increased fund balance was the \$210 increase in the per pupil foundation and the \$23 equity payment. Additional reasons for the increase resulted from benefits costs that remained fairly constant rather than increasing at the rates previously seen.

Additional impact on the budget was seen on both the revenue and expenditure side due to the shift of the adult education program from the community services fund to the general fund.

Whitehall District Schools

Management Discussion and Analysis

For the Fiscal Year Ended June 30, 2007

Capital Project Fund

Analysis of Transactions and Fund Balance

In 2001, a \$29,500,000 bond issue was passed by the citizens of the District, with the purpose of building a new high school, and renovating Ealy Elementary, Whitehall Middle School, and the Administration and Community Services Building.

During the 2006-2007 school year, approximately \$9,600 in interest was earned and credited to this fund. No additional revenue was credited.

The majority of all construction, including completion of the new high school, and renovations to the middle school and community services building was concluded during the 2005-2006 school year. Expenditures for the 2006-2007 school year were just under \$65,000 which paid for bank instruments and the renovation of the tennis courts. Approximately \$188,000 remains in fund balance to complete identified projects including a public address system for Ealy Elementary, and Community Services signage and roof replacement.

Community Education Fund

Analysis of Transactions and Fund Balance

Whitehall District Schools serves as the fiscal agent for White Lake Area Community Education, a consortium of five districts established to provide pre-k through adult services to our communities.

Revenues increased from \$3.65 million to \$4.42 million, and expenditures decreased from \$3.7 million to \$3.0 million. Efficiencies of operating 5 districts through one consortium, including reduced management costs, allowed the program to remain fairly stable despite the ebb and flow of grant dollars. \$501,641 was added to fund balance during the 2006-2007 school year due to growth in the Workforce Investment Act program proceeds.

Food Service Fund

Analysis of Transactions and Fund Balance

The food service program changed significantly with the addition of our new High School in 2004-2005. When the new high school was opened it included a closed campus philosophy, meaning that all students would bring or be served lunch in the cafeteria. Opening the new facility, as well as operational changes to the program resulted lower than optimal fund balance. The 2005-2006 year was spent making adjustments to the program in order to eliminating the operating deficit.

The 2006-2007 year showed an operating surplus of \$82,000 which reflects the sound management of the program.

Whitehall District Schools

Management Discussion and Analysis

For the Fiscal Year Ended June 30, 2007

Currently Known Facts and Conditions Affecting the 2007/08 School Year

The State of Michigan has been dealing with its budget difficulties throughout the summer and fall. As of October of 2007, school districts in the state have not yet been notified of funding amounts for the current year. Enrollment in the District appears to be slightly down, with a reduction of approximately 9 students. The retirement rate has decreased from 17.74 percent to 16.72 percent. The cost of insurance for the majority of our staff was not estimated to increase significantly for the 2007-2008 school year.

The combination of each of these financial issues allowed the Board to feel comfortable that sufficient reductions had been made in previous years to allow the District to operate in a financially responsible manner without further budget reductions. In fact, additional money has been budgeted for technology and curricular upgrades.

Requests for Information

This financial report is designed to provide the citizens, taxpayers, parents, students, investors and creditors with a general overview of the District's finances, and to show how the District is accountable for the money it receives. Questions concerning any of the information provided in this report, or requests for additional financial information should be addressed to Ms. Christine Annese, Assistant Superintendent for Finance and Personnel, Whitehall District Schools, 541 E. Slocum, Whitehall, MI 49461, telephone number (231) 893-1010, email address: christineannese@whitehall.k12.mi.us

BRICKLEY DELONG

CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT

October 24, 2007

Board of Education
Whitehall District Schools
Whitehall, Michigan

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Whitehall District Schools (the School District), as of and for the year ended June 30, 2007, which collectively comprise the School District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Whitehall District Schools' management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Whitehall District Schools, as of June 30, 2007, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards* we have also issued our report dated October 24, 2007, on our consideration of Whitehall District Schools' internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

BRICKLEY DELONG

Board of Education
October 24, 2007
Page 2

The management's discussion and analysis and budgetary comparison information on pages i - xii and 26 - 27 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Whitehall District Schools' basic financial statements. The combining nonmajor fund financial statements, on pages 29 and 30, are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining nonmajor fund financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Brickley DeLong, PLC

Whitehall District Schools
STATEMENT OF NET ASSETS
June 30, 2007

	Governmental activities
ASSETS	
CURRENT ASSETS	
Cash and cash equivalents	\$ 3,402,025
Investments	188,266
Receivables	194,290
Due from other governmental units	3,544,949
Inventories	5,602
Total current assets	7,335,132
NONCURRENT ASSETS	
Capital assets, net	
Nondepreciable	762,882
Depreciable	33,222,705
Bond issuance costs, net	379,659
Note and interest receivable	195,677
Total noncurrent assets	34,560,923
Total assets	41,896,055
LIABILITIES AND NET ASSETS	
CURRENT LIABILITIES	
Accounts payable and accrued liabilities	1,962,972
Due to other governmental units	174,048
Deferred revenue	49,423
Bonds and other obligations, due within one year	1,338,119
Total current liabilities	3,524,562
NONCURRENT LIABILITIES	
Bonds and other obligations, less amounts due within one year	35,123,759
Accrued interest	54,000
Total noncurrent liabilities	35,177,759
Total liabilities	38,702,321
NET ASSETS	
Invested in capital assets, net of related debt	(278,411)
Restricted for debt service	677,019
Unrestricted	2,795,126
Total net assets	\$ 3,193,734

The accompanying notes are an integral part of this statement.

Whitehall District Schools
STATEMENT OF ACTIVITIES
For the year ended June 30, 2007

<i>Functions/Programs</i>	Expenses	Program Revenue		Net (Expense) Revenue and Changes in Net Assets
		Charges for services	Operating grants and contributions	Governmental activities
Governmental activities				
Instruction	\$ 11,724,903	\$ 579,256	\$ 1,006,055	\$ (10,139,592)
Support services	6,594,375	328,266	277,219	(5,988,890)
Community services	3,021,464	1,190,784	2,368,131	537,451
Food services	687,122	380,669	356,632	50,179
Athletics	418,063	57,758	-	(360,305)
Interest on long-term debt	1,736,095	-	-	(1,736,095)
Unallocated depreciation and amortization	930,608	-	-	(930,608)
Total governmental activities	<u>\$ 25,112,630</u>	<u>\$ 2,536,733</u>	<u>\$ 4,008,037</u>	(18,567,860)
General revenues				
Property taxes levied for				
General purposes				3,098,753
Debt service				2,996,645
Grants and contributions not restricted to specific programs				13,597,462
Investment earnings				142,094
Miscellaneous				47,895
Total general revenues				<u>19,882,849</u>
Change in net assets				1,314,989
Net Assets at July 1, 2006, as restated				<u>1,878,745</u>
Net Assets at June 30, 2007				<u>\$ 3,193,734</u>

The accompanying notes are an integral part of this statement.

Whitehall District Schools
BALANCE SHEET
Governmental Funds
June 30, 2007

	General Fund	Community Education Fund	Other governmental funds	Total governmental funds
ASSETS				
Cash and cash equivalents	\$ 1,156,604	\$ 1,134,728	\$ 1,110,693	\$ 3,402,025
Investments	-	-	188,266	188,266
Receivables	192,710	-	1,580	194,290
Due from other governmental units	3,056,323	483,581	5,045	3,544,949
Due from other funds	641,830	-	65,964	707,794
Inventories	-	-	5,602	5,602
Total assets	<u>\$ 5,047,467</u>	<u>\$ 1,618,309</u>	<u>\$ 1,377,150</u>	<u>\$ 8,042,926</u>
LIABILITIES AND FUND BALANCES				
Liabilities				
Accounts payable	\$ 42,940	\$ 38,852	\$ 3,443	\$ 85,235
Accrued liabilities	1,579,028	37,122	587	1,616,737
Due to other governmental units	172,249	1,799	-	174,048
Due to other funds	65,964	587,023	54,807	707,794
Deferred revenue	6,399	39,878	3,146	49,423
Total liabilities	<u>1,866,580</u>	<u>704,674</u>	<u>61,983</u>	<u>2,633,237</u>
Fund balances				
Reserved				
Inventories	-	-	5,602	5,602
Debt service	-	-	992,019	992,019
Capital projects	-	-	188,343	188,343
Unreserved				
Undesignated				
General Fund	3,180,887	-	-	3,180,887
Community Education Fund	-	913,635	-	913,635
School service	-	-	129,203	129,203
Total fund balances	<u>3,180,887</u>	<u>913,635</u>	<u>1,315,167</u>	<u>5,409,689</u>
Total liabilities and fund balances	<u>\$ 5,047,467</u>	<u>\$ 1,618,309</u>	<u>\$ 1,377,150</u>	<u>\$ 8,042,926</u>

The accompanying notes are an integral part of this statement.

Whitehall District Schools
**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
 TO THE STATEMENT OF NET ASSETS**

June 30, 2007

Total fund balance—governmental funds	\$	5,409,689
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Amounts reported for governmental activities in the Statement of Net Assets
are different because:

Capital assets used in governmental activities are not current financial resources and
are not reported in the governmental funds.

Cost of capital assets	\$ 42,485,295	
Accumulated depreciation	<u>(8,499,708)</u>	33,985,587

Bond issuance costs are not capitalized and amortized in the governmental funds.

Bond issuance costs	449,317	
Accumulated amortization	<u>(69,658)</u>	379,659

Other long-term note and interest receivable in governmental activities is not
reported in the governmental funds.

195,677

Accrued interest in governmental activities is not reported in the governmental funds.

(315,000)

Long-term obligations in governmental activities are not due and payable in the current
period and are not reported in the governmental funds.

Bonds and notes payable	(36,207,784)	
Compensated absences	<u>(254,094)</u>	<u>(36,461,878)</u>

Net assets of governmental activities in the Statement of Net Assets	\$	<u><u>3,193,734</u></u>
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The accompanying notes are an integral part of this statement.

Whitehall District Schools
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
Governmental Funds
For the year ended June 30, 2007

	General Fund	Community Education Fund	Other governmental funds	Total governmental funds
REVENUES				
Local sources				
Property taxes	\$ 3,100,712	\$ -	\$ 2,996,645	\$ 6,097,357
Investment earnings	62,859	16,566	62,667	142,092
Fees and charges	255,991	1,185,268	438,428	1,879,687
Other	11,025	42,070	9,076	62,171
Total local sources	3,430,587	1,243,904	3,506,816	8,181,307
State sources	13,464,989	1,108,933	31,350	14,605,272
Federal sources	536,365	2,070,262	351,697	2,958,324
Total revenues	17,431,941	4,423,099	3,889,863	25,744,903
EXPENDITURES				
Instruction	11,677,444	-	-	11,677,444
Support services	6,518,177	-	-	6,518,177
Community services	-	3,040,539	-	3,040,539
Food services	-	-	687,122	687,122
Athletics	-	-	418,063	418,063
Debt service				
Principal	18,919	-	1,015,252	1,034,171
Interest and other charges	1,737	-	1,910,102	1,911,839
Capital projects	-	-	64,248	64,248
Total expenditures	18,216,277	3,040,539	4,094,787	25,351,603
Excess (deficiency) of revenues over (under) expenditures	(784,336)	1,382,560	(204,924)	393,300
OTHER FINANCING SOURCES (USES)				
Transfers from other governmental units and other transactions	650,891	31,558	-	682,449
Transfers in	912,477	-	354,676	1,267,153
Transfers out	(354,676)	(912,477)	-	(1,267,153)
Transfers to other governmental units and other transactions	(247,367)	-	-	(247,367)
Total other financing sources (uses)	961,325	(880,919)	354,676	435,082
Net change in fund balances	176,989	501,641	149,752	828,382
Fund balances at July 1, 2006	3,003,898	411,994	1,165,415	4,581,307
Fund balances at June 30, 2007	\$ 3,180,887	\$ 913,635	\$ 1,315,167	\$ 5,409,689

The accompanying notes are an integral part of this statement.

Whitehall District Schools
**RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES**

For the year ended June 30, 2007

Net change in fund balances—total governmental funds	\$	828,382
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Amounts reported for governmental activities in the Statement of Activities are different because:

Governmental funds report outlays for capital assets and bond issuance costs as expenditures; in the Statement of Activities these costs are depreciated and amortized over their estimated useful lives, respectively.

Depreciation and amortization expense	\$	(930,608)	
Capital outlay and bond issuance costs		<u>217,871</u>	(712,737)

Interest income on the note receivable is recorded in the Statement of Activities when incurred, but is not reported in governmental funds until received.		(17,500)
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Repayment of principal on long-term obligations is an expenditure in the governmental funds, but the repayment reduces long-term obligations in the Statement of Net Assets.		1,205,621
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Interest expense on long-term debt is recorded in the Statement of Activities when incurred, but is not reported in governmental funds until paid.		22,064
--	--	--------

Compensated absences are reported on the accrual method in the Statement of Activities and reported as expenditures when financial resources are used in the governmental funds.		<u>(10,841)</u>
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Change in net assets of governmental activities	\$	<u><u>1,314,989</u></u>
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The accompanying notes are an integral part of this statement.

Whitehall District Schools
STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES
Fiduciary Funds
June 30, 2007

	<u>Agency funds</u>
ASSETS	
Cash and cash equivalents	\$ <u><u>321,856</u></u>
 LIABILITIES	
Accounts payable	\$ 7,538
Deposits held for others	<u>314,318</u>
 Total liabilities	\$ <u><u>321,856</u></u>

The accompanying notes are an integral part of this statement.

Whitehall District Schools
NOTES TO FINANCIAL STATEMENTS
June 30, 2007

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of Whitehall District Schools (School District) have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the School District's accounting policies are described below.

Reporting Entity

The School District is governed by an elected seven-member Board of Education (Board), which has responsibility and control over all activities related to public school education within the School District. The School District receives funding from local, state, and federal government sources and must comply with all of the requirements of these funding source entities. However, the School District is not included in any other governmental reporting entity as defined by generally accepted accounting principles. In addition, the School District's reporting entity does not contain any component units as defined in Governmental Accounting Standards Board Statement No. 14. Board members have decision-making authority, the power to designate management, the ability to significantly influence operations, and the primary accountability for fiscal matters.

District-wide and Fund Financial Statements

District-wide Financial Statements – The primary focus of district-wide financial statements is on the sustainability of the School District as an entity and the change in the School District's net assets resulting from the current year's activities. The district-wide financial statements (i.e., the Statement of Net Assets and the Statement of Activities) report information on all of the non-fiduciary activities of the School District. For the most part, the effect of interfund activity has been removed from these statements. The district-wide financial statements categorize primary activities as either governmental or business type. All of the School District's activities are classified as governmental activities.

In the district-wide Statement of Net Assets, the governmental activities column (a) is presented on a consolidated basis and (b) is reported on a full accrual, economic resource basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations. The School District's net assets are reported in three parts – invested in capital assets, net of related debt; restricted net assets; and unrestricted net assets.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. The School District first utilizes restricted resources to finance qualifying activities. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges paid by recipients who purchase, use or directly benefit from goods or services by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. State Foundation Aid, certain revenue from the intermediate school district, and other unrestricted items are not included as program revenues but instead as *general revenues*.

The district-wide Statement of Activities reports both the gross and net cost of each of the School District's functions. The functions are also supported by general revenues (property taxes, certain intergovernmental revenues and charges, etc.). The Statement of Activities reduces gross expenses by related program revenues and operating grants. Program revenues must be directly associated with the function. Operating grants include operating-specific and discretionary (either operating or capital) grants. The School District does not allocate indirect costs.

Whitehall District Schools
NOTES TO FINANCIAL STATEMENTS—CONTINUED
June 30, 2007

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued

District-wide and Fund Financial Statements—Continued

Fund financial statements – Fund financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from district-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

Governmental funds – Governmental funds are those funds through which most School District functions typically are financed. The acquisition, use and balances of the School District's expendable financial resources and the related current liabilities are accounted for through governmental funds.

The School District reports the following major governmental funds:

- The *General Fund* is the School District's primary operating fund. It accounts for all financial resources of the School District, except those required to be accounted for in another fund.
- The *Community Education Fund* accounts for community education and employment development programs.

The other nonmajor governmental funds are reported within the following types:

- The *special revenue funds* account for revenue sources that are legally restricted to expenditures for specific purposes (not including expendable trusts or major capital projects). The School District accounts for its food service and athletic activities in the school service special revenue funds.
- The *debt service funds* account for the resources accumulated and payments made for principal and interest on long-term general obligation debt of governmental funds.
- The *capital projects funds* account for the receipt of debt proceeds and the acquisition of fixed assets or construction of major capital projects.

Fiduciary funds – Fiduciary funds account for assets held by the School District in a trustee capacity or as an agent on behalf of others. Trust funds account for assets held by the School District under the terms of a formal trust agreement. Fiduciary funds are not included in the district-wide statements.

- The *agency fund* is custodial in nature and does not present results of operations or have a measurement focus. Agency funds are accounted for using the modified accrual basis of accounting. This fund is used to account for assets that the School District holds for others in an agency capacity (primarily student activities).

Whitehall District Schools
NOTES TO FINANCIAL STATEMENTS—CONTINUED
June 30, 2007

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued

Measurement Focus, Basis of Accounting and Basis of Presentation

Accrual Method

The district-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting* as are the fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants, categorical aids and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Modified Accrual Method

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. With this measurement focus, operating statements present increases and decreases in net current assets, and unreserved fund balance is a measure of available spendable resources. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the School District considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, unrestricted state aid, intergovernmental grants, and interest associated with the current fiscal period are all considered to be susceptible to accrual and have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the School District.

State Revenue

The State of Michigan utilizes a foundation grant approach which provides for a specific annual amount of revenue per pupil based on a statewide formula. The Foundation is funded from state and local sources. Revenues from state sources are primarily governed by the School Aid Act and the School Code of Michigan. The Michigan Department of Education administers the allocation of state funds to school districts based on information supplied by the school districts. For the year ended June 30, 2007, the foundation allowance was based on pupil membership counts taken in February and September of 2006.

The state portion of the foundation is provided primarily by a state education property tax millage of 6 mills and an allocated portion of state sales and other taxes. The local portion of the foundation is funded primarily by non-homestead property taxes which may be levied at a rate of up to 18 mills. The state revenue is recognized during the foundation period and is funded through payments from October 2006 to August 2007. Thus, the unpaid portion at June 30, 2007 is reported as due from other governmental units.

The School District also receives revenue from the state to administer certain categorical education programs. State rules require that revenue earmarked for these programs be used for its specific purpose. Certain governmental funds require an accounting to the state of the expenditures incurred. For categorical funds meeting this requirement, funds received, which are not expended by the close of the fiscal year are recorded as deferred revenue. Other categorical funding is recognized when the appropriation is received.

Whitehall District Schools
NOTES TO FINANCIAL STATEMENTS—CONTINUED
June 30, 2007

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued

Other Accounting Policies

Deposit and Investments

Cash and cash equivalents include cash on hand, demand deposits and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value. Pooled investment income is generally allocated to each fund using a weighted average of balances for the principal.

The School District reports its investments in accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools* and No. 40 *Deposits and Investment Risk Disclosures*. Under these standards, certain investments are valued at fair value as determined by quoted market prices or by estimated fair values when quoted market prices are not available. The standards also provides that certain investments are valued at cost (or amortized cost) when they are of a short-term duration, the rate of return is fixed, and the School District intends to hold the investment until maturity.

State statutes authorize the School District to invest in bonds and other direct and certain indirect obligations of the U.S. Treasury; certificates of deposit, savings accounts, deposit accounts, or depository receipts of a bank, savings and loan association, or credit union, which is a member of the Federal Deposit Insurance Corporation, Federal Savings and Loan Insurance Corporation, or National Credit Union Administration, respectively; in commercial paper rated at the time of purchase within the three highest classifications established by not less than two standard rating services and which matures not more than 270 days after the date of purchase. The School District is also authorized to invest in U. S. Government or federal agency obligation repurchase agreements, bankers' acceptances of U.S. banks, and mutual funds composed of investments as outlined above. The School District's deposits and investments are in accordance with statutory authority.

Interfund Receivables and Payables

Activities between funds that are representative of lending or borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds". The School District had no advances between funds.

Property Taxes

Property taxes levied by the School District are collected by various municipalities and periodically remitted to the School District. The taxes are levied as of December 1 and are due upon receipt of the billing by the taxpayer and become a lien on the first day of the levy year. The actual due date is February 14, after which time the bills become delinquent and penalties and interest may be assessed by the collecting entity.

For the year ended June 30, 2007, the School District levied the following amounts per \$1,000 of assessed valuation:

<u>Fund</u>	<u>Mills</u>
General Fund—Non-homestead	18
Debt service fund—Homestead and non-homestead	7

Whitehall District Schools
NOTES TO FINANCIAL STATEMENTS—CONTINUED
June 30, 2007

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued

Other Accounting Policies—Continued

Inventories

Food service inventory is valued at the lower of cost (first-in, first-out) or market. The inventory is expendable supplies held for consumption and is recorded as expenditures when consumed rather than when purchased. Inventories for commodities are recorded as revenue when utilized.

Prepaid Items

Payments made to vendors for services that will benefit periods beyond the fiscal year end are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expenditure is reported in the year in which services are consumed.

Restricted Assets

Assets are reported as restricted when limitations on their use change the normal understanding of the availability of the asset. Such constraints are either imposed by creditors, contributors, grantors, or laws of other governments or imposed by enabling legislation. Restricted assets include bond proceeds to be used for capital construction.

Capital Assets

Capital assets purchased or acquired are capitalized at historical cost or estimated historical cost. Donated fixed assets are valued at their estimated fair market value on the date received. Capital assets are defined by the School District as assets with an initial cost of more than \$5,000 and an estimated useful life in excess of one year. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Improvements are capitalized and depreciated over the remaining useful lives of the related fixed assets. The School District does not have infrastructure-type assets.

Depreciation is provided on the straight-line basis over the following useful lives:

Building and improvements	25-50 years
Buses and other vehicles	8-10 years
Furniture and other equipment	5-20 years

Land and certain land improvements are deemed to be inexhaustible capital assets, as the economic benefit or service potential is used up so slowly that the estimated useful life is extraordinarily long. These inexhaustible assets are not depreciated.

Compensated Absences

The liability for compensated absences reported in the district-wide statement consists of unpaid, accumulated annual and sick leave balances. The liability has been calculated using the vesting method, in which leave amounts for both employees who are currently eligible to receive termination payments and other employees who are expected to become eligible in the future to receive such payments upon termination are included.

For fund financial statements, no compensated absence liability is reported for current employees and a compensated absence liability is reported for terminated employees only when the termination date is on or before year end.

Early Retirement Incentives

For district-wide financial statements, the liability for early retirement incentives is reported when legally enforceable. For fund financial statements, the liability for early retirement incentives is reported either 1) on the due date when there is a specified due date or 2) on the retirement date if it is before year end, when there is not a specified legally enforceable due date.

Whitehall District Schools
NOTES TO FINANCIAL STATEMENTS—CONTINUED
June 30, 2007

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued

Other Accounting Policies—Continued

Deferred Revenue

Deferred revenue arises when assets are recorded before revenue recognition criteria have been satisfied. Grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue. On fund financial statements, receivables that will be collected after the available period are reported as deferred revenue.

Long-term Obligations

In the district-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the Statement of Net Assets. Bond premiums and discounts, as well as issuance cost, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Net Assets in District-wide Financial Statements

Net assets represent the difference between assets and liabilities and are segregated into the following components:

- **Invested in capital assets, net of related debt** consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes, and other debt that are attributed to the acquisition, construction, or improvement of those assets. Pursuant to the Michigan School Accounting Manual Referent Group guidance for Michigan public school districts, School Bond Loan Fund and School Loan Revolving Fund debt is not considered to be capital related debt.
- **Restricted net assets** result when constraints placed on net asset use are either externally imposed by creditors, grantors, contributions, and the like, or imposed by law through constitutional provisions or enabling legislation.
- **Unrestricted net assets** consist of net assets which do not meet the definition of the two preceding categories. Unrestricted net assets often are designated, to indicate that management does not consider them to be available for general operations. Unrestricted net assets often have constraints on resources which are imposed by management, but can be removed or modified.

Fund Equity In Fund Financial Statements

The School District reserves those portions of governmental fund balances that are legally segregated for specific future use or which do not represent available expendable resources and therefore are not available for appropriations for expenditures. Unreserved fund balance indicates that portion of fund equity which is available for appropriation in future periods. Fund balance reserves are established for encumbrances, inventory of materials and supplies, prepaid items, deferred charges and advances to other funds, when applicable. Designations of fund balance represent tentative management plans that are subject to change.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statement and accompanying notes. Actual results may differ from those estimates.

Whitehall District Schools
NOTES TO FINANCIAL STATEMENTS—CONTINUED
June 30, 2007

NOTE B—PRIOR PERIOD ADJUSTMENT

During the year ended June 30, 2006, the School District reported interest on the 2001 School Building and Site Bonds paid by the escrow agent during the 2005 refunding as a deferred amount on refunding rather than interest expense. In addition, accreted interest on the 1992 School Building and Site Capital Appreciation Bond had been expensed rather than treated as an increase in long-term obligations. The June 30, 2006 net assets have been restated to reflect these corrections.

The restatement of net assets as of June 30, 2006 is as follows:

Net assets at June 30, 2006	\$ 3,090,493
Increase in long term obligations	
Deferred amount on refunding	(380,000)
Accreted interest	(846,928)
Decrease in accumulated amortization	<u>15,180</u>
Net assets at July 1, 2006, as restated	\$ <u>1,878,745</u>

NOTE C—STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgets and Budgetary Accounting

Budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America. Annual appropriated budgets are adopted for the General Fund, Community Education Fund, special revenue, debt service and capital project funds. All annual appropriations lapse at year end.

The School District follows these procedures in establishing the budgetary data reflected in the financial statements:

1. The Superintendent submits to the School Board a proposed operating budget for the fiscal year commencing on July 1. The operating budget includes proposed expenditures and the means of financing them. The level of control for the budgets is at the functional level as set forth and presented as required supplementary information.
2. Public hearings are conducted to obtain taxpayer comments.
3. Prior to July 1, the budget is legally adopted by Board of Education resolution pursuant to the Uniform Budgeting and Accounting Act (P.A. 621 of 1978). The Act requires that the budget be amended prior to the end of the fiscal year when necessary to adjust appropriations if it appears that revenues and other financing sources will be less than anticipated or so that expenditures will not be in excess of original estimates. Expenditures shall not be made or incurred, unless authorized in the budget, in excess of the amount appropriated. Violations, if any, are noted in the required supplementary information section.
4. The Assistant Superintendent is authorized to transfer budgeted amounts within major expenditure functions within any fund; however, these transfers and any revisions that alter the total expenditures of any fund must be approved by the Board of Education.
5. Formal budgetary integration is employed as a management control device during the year.
6. The budget is amended during the year with supplemental appropriations, the last one approved prior to June 30, 2007. The School District does not consider these amendments to be significant.

Whitehall District Schools
NOTES TO FINANCIAL STATEMENTS—CONTINUED
June 30, 2007

NOTE C—STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY—Continued

Excess of Expenditures Over Appropriations

For the year ended June 30, 2007, expenditures in the General Fund exceeded appropriations in the business function by \$20,783, in operations and maintenance function by \$22,134, and in outgoing transfers and other transactions by \$33,543. Expenditures in the Community Education Fund exceeded appropriations in community education and enrichment by \$37,290 and in workforce development by \$30,216. These over expenditures were funded by greater than anticipated revenue or decreases in other expenditure functions.

School Bond Construction Compliance

The 2001 Capital Projects Fund includes capital project activities funded with bonds issued after May 1, 1994. For this capital project, the School District has complied with the applicable provisions of §1351(a) of the State of Michigan's School Code.

Following is a summary of the revenue and expenditures in the 2001 Capital Projects Fund from the inception of the fund through June 30, 2007.

	<u>2001 Capital Projects Fund</u>
Revenue and bond proceeds	\$31,299,299
Expenditures	31,110,956

NOTE D—DEPOSITS AND INVESTMENTS

As of June 30, 2007, the School District had the following investments:

Investment Type	<u>Fair value</u>	<u>Weighted average maturity (Days)</u>	<u>Standard & Poor's Rating</u>	<u>Percent</u>
Fifth Third Institutional Government Money Market Fund	\$ <u>188,266</u>	<u>44</u>	AAA	<u>100.00%</u>

Interest rate risk. The School District does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit risk. State law limits investments in commercial paper and corporate bonds to the three highest classifications issued by nationally recognized statistical rating organizations. The School District has no investment policy that would further limit its investment choices.

Concentration of credit risk. The School District does not have a concentration of credit risk policy. Concentration of credit risk is the risk of loss attributed to the magnitude of the School District investment in a single issuer, by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized.

Custodial credit risk - deposits. In the case of deposits, this is the risk that in the event of a bank failure, the School District's deposits may not be returned to it. As of June 30, 2007, \$3,821,034 of the School District's bank balance of \$3,921,034 was exposed to custodial credit risk because it was uninsured and uncollateralized.

Whitehall District Schools
NOTES TO FINANCIAL STATEMENTS—CONTINUED
June 30, 2007

NOTE D—DEPOSITS AND INVESTMENTS—Continued

Custodial credit risk - investments. The School District does not have a custodial credit risk policy for investments. This is the risk that, in the event of the failure of the counterparty, the School District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party.

Foreign currency risk. The School District is not authorized to invest in investments which have this type of risk.

NOTE E—CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2007 was as follows:

	Balance July 1, 2006	Additions	Deductions	Balance June 30, 2007
Capital assets, not being depreciated:				
Land	\$ 762,882	\$ -	\$ -	\$ 762,882
Construction in progress	132,118	4,244	136,362	-
Total capital assets, not being depreciated	895,000	4,244	136,362	762,882
Capital assets, being depreciated:				
Buildings and improvements	38,322,545	170,471	-	38,493,016
Office furniture and equipment	1,756,472	26,275	-	1,782,747
Vehicles and equipment	1,293,407	153,243	-	1,446,650
Total capital assets, being depreciated	41,372,424	349,989	-	41,722,413
Less accumulated depreciation:				
Buildings and improvements	5,778,755	668,049	-	6,446,804
Office furniture and equipment	794,500	192,520	-	987,020
Vehicles and equipment	1,013,328	52,556	-	1,065,884
Total accumulated depreciation	7,586,583	913,125	-	8,499,708
Total capital assets, being depreciated, net	33,785,841	(563,136)	-	33,222,705
Capital assets, net	\$ 34,680,841	\$ (558,892)	\$ 136,362	\$ 33,985,587

Depreciation

Depreciation expense has been charged as unallocated depreciation.

Whitehall District Schools
NOTES TO FINANCIAL STATEMENTS—CONTINUED
June 30, 2007

NOTE F—BOND ISSUANCE COSTS

Bond issuance cost activity for the year ended June 30, 2007 was as follows:

	Balance July 1, 2006	Additions	Deductions	Balance June 30, 2007
Bond issuance costs	\$ 449,317	\$ -	\$ -	\$ 449,317
Less accumulated amortization	<u>52,175</u>	<u>17,483</u>	<u>-</u>	<u>69,658</u>
Bond issuance costs, net	<u>\$ 397,142</u>	<u>\$ (17,483)</u>	<u>\$ -</u>	<u>\$ 379,659</u>

Amortization

Amortization expense has been charged as unallocated amortization.

NOTE G—INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS

The composition of interfund balances as of June 30, 2007 is as follows:

Due to/from other funds:

<u>Receivable fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General Fund	Community Education Fund	\$ 587,023
General Fund	Other governmental funds	54,807
Community Education Fund	General Fund	914,720
Other governmental funds	General Fund	<u>65,964</u>
		<u>\$ 1,622,514</u>

The outstanding balances between funds result mainly from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made.

Interfund Transfers

The General Fund transferred \$354,676 to the Athletics Fund and the Community Education Fund transferred \$912,477 to the General Fund to finance operations.

Whitehall District Schools
NOTES TO FINANCIAL STATEMENTS—CONTINUED
June 30, 2007

NOTE H—SHORT-TERM DEBT

The School District issues State of Michigan school aid anticipation notes to provide short-term operating funds. The notes are obligations of the General Fund, which received the note proceeds, and are backed by the full faith, credit and resources of the School District. The short-term debt activity for the year ended June 30, 2007 follows:

	Balance July 1, 2006	Additions	Reductions	Balance June 30, 2007
State aid anticipation note				
2005/2006 2.87% due August 2006	\$ 1,600,000	\$ -	\$ 1,600,000	\$ -

NOTE I—LONG-TERM OBLIGATIONS

The School District issues bonds, notes and other contractual commitments to provide for the acquisition, construction and improvement of major capital facilities and for the acquisition of certain equipment. General obligation bonds are direct obligations and pledge the full faith and credit of the School District. Other long-term obligations include the School Bond Loan Fund, School Loan Revolving Fund, capital leases, and Education Interconnection and Consortium Financing Agreement, early retirement incentives and compensated absences.

Summary of Long-term Obligations

The following is a summary of long-term obligations activity for the School District for the year ended June 30, 2007:

	Balance July 1, 2006 (as restated)	Additions	Reductions	Balance June 30, 2007	Due within one year
Governmental activities					
Bonds	\$ 36,595,192	\$ 98,338	\$ 1,318,946	\$ 35,374,584	\$ 1,318,049
Other obligations	818,213	34,172	19,185	833,200	20,070
Compensated absences	243,254	20,303	9,463	254,094	-
	<u>\$ 37,656,659</u>	<u>\$ 152,813</u>	<u>\$ 1,347,594</u>	<u>\$ 36,461,878</u>	<u>\$ 1,338,119</u>

In the previous schedule the additions for bonds represents additional accreted interest on a capital appreciation bond. The additions for other obligations represent \$17,951 of accrued interest on the School Bond Loan Fund and \$16,221 of accrued interest on the School Loan Revolving Fund.

Whitehall District Schools
NOTES TO FINANCIAL STATEMENTS—CONTINUED
June 30, 2007

NOTE I—LONG-TERM OBLIGATIONS—Continued

Summary of Long-term Obligations—Continued

General obligation bonds consist of the following:

1992 School Building and Site Capital Appreciation Bond payable in annual installments ranging from \$590,000 to \$645,000 due May 2008 to 2009; including interest at 6.4% payable annually	\$ 1,124,251
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1997 Refunding General Obligation Bond payable in annual installments ranging from \$25,000 to \$840,000 due May 2008 to 2018; plus interest ranging from 4.95% to 5% payable semi-annually	7,280,000
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2001 School Building and Site General Obligation Bond payable in annual installments ranging from \$650,000 to \$2,000,000 due May 2008 to 2027; plus interest ranging from 4% to 5.5% payable semi-annually	10,275,000
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Plus issuance premium	<u>102,432</u>
	10,377,432

2005 Refunding General Obligation Bond payable in annual installments ranging from \$70,000 to \$1,885,000 due May 2008 to 2024; plus interest ranging from 3% to 5% payable semi-annually	16,815,000
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Plus issuance premium	72,920
Less deferred amount on refinancing	<u>(436,696)</u>
	16,451,224

Durant obligations payable in annual installments ranging from \$19,891 to \$133,648 due May 2009 to 2013; including interest at approximately 4.76%. The School District is only obligated to make the annual payments to the extent of annual State of Michigan state school aid appropriations	<u>141,677</u>
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Total bonded debt	35,374,584
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Whitehall District Schools
NOTES TO FINANCIAL STATEMENTS—CONTINUED
June 30, 2007

NOTE I—LONG-TERM OBLIGATIONS—Continued

Summary of Long-term Obligations—Continued

Other obligations

School Bond Loan Fund payable as soon as annual tax collections exceed annual debt service payment requirements or May 2033, whichever is sooner; interest payable of \$13,796 is included at rates ranging from 4.5% to 4.875%	\$ 396,131
School Loan Revolving Fund payable no later than May 2033; interest payable of \$12,429 is included at rates ranging from 4.68% to 5.04%	347,365
Capital lease obligation payable in monthly installments of \$650 including interest at 9.17%; final payment due March 2009	12,567
Education Interconnection and Consortium Financing Agreement payable in annual installments of \$12,856 due March 2008 to 2013	<u>77,137</u>
Total other obligations	833,200
Compensated absences	<u>254,094</u>
	<u>\$36,461,878</u>

The Durant bonds, including interest, were issued in anticipation of payment to the School District as appropriated and to be appropriated by the State of Michigan under Section 11g(3) of Act 94 (State Aid payments). The School District has pledged and assigned to the bondholder all rights to these State Aid payments as security for the Bond. The note receivable on the Statement of Net Assets is for the future appropriations from the State of Michigan to pay the Durant obligations.

The annual requirements of principal and interest to amortize the bonded debt, capital leases and Education Interconnection and Consortium Financing Agreement outstanding as of June 30, 2007 follows:

Year ending June 30,	Principal	Interest	Total
2008	\$ 1,338,119	\$ 1,632,475	\$ 2,970,594
2009	1,410,175	1,571,380	2,981,555
2010	1,494,370	1,500,999	2,995,369
2011	1,555,157	1,435,432	2,990,589
2012	1,675,966	1,425,140	3,101,106
2013-2017	9,286,845	5,619,944	14,906,789
2018-2022	9,235,000	3,463,964	12,698,964
2023-2027	9,730,000	1,435,956	11,165,956
	<u>\$ 35,725,632</u>	<u>\$ 18,085,290</u>	<u>\$ 53,810,922</u>

Whitehall District Schools
NOTES TO FINANCIAL STATEMENTS—CONTINUED
June 30, 2007

NOTE J—EMPLOYEE BENEFITS

Employee Retirement System – Defined Benefit Plan

Plan description – The School District contributes to the statewide Michigan Public School Employees' Retirement System (MPERS), a cost sharing multiple-employer defined benefit pension plan administered by the nine member board of the MPERS. The MPERS provides retirement benefits and post-retirement benefits for health, dental and vision. The MPERS was established by Public Act 136 of 1945 and operated under the provisions of Public Act 300 of 1980, as amended. The MPERS issues a publicly available financial report that includes financial statements and required supplementary information for MPERS. That report may be obtained by writing to or calling:

Office of Retirement Systems
Michigan Public School Employees Retirement System
P.O. Box 30171
Lansing Michigan 48909
1-800-381-5111

Funding policy – Member Investment Plan (MIP) members enrolled in MIP prior to January 1, 1990 contribute a permanently fixed rate of 3.9 percent of gross wages. The MIP contribution rate was 4.0 percent from January 1, 1987, the effective date of the MIP, until January 1, 1990 when it was reduced to 3.9 percent. Members first hired January 1, 1990 or later and returning members who did not work between January 1, 1987 through December 31, 1989 contribute at the following graduated permanently fixed contribution rate: 3 percent of the first \$5,000; 3.6 percent of \$5,001 through \$15,000; 4.3 percent of all wages over \$15,000.

Basic Plan members make no contributions. For a limited period ending December 31, 1992, an active Basic Plan member could enroll in the MIP by paying the contributions that would have been made had enrollment occurred initially on January 1, 1987 or on the date of hire, plus interest. MIP contributions at the rate of 3.9 percent of gross wages begin at enrollment. Market rate interest is posted to member accounts on July 1st on all MIP monies on deposit for 12 months. If a member leaves MPERS service and no pension is payable, the member's accumulated contribution plus interest, if any, are refundable.

The School District is required to contribute the full actuarial funding contribution amount to fund pension benefits, plus an additional amount to fund retiree health care benefit amounts on a cash disbursement basis. The rates for the year ended June 30, 2007, was 17.74 percent of payroll. The contribution requirements of plan members and the School District are established and may be amended by the MPERS Board of Trustees. The School District contributions to MPERS for the year ended June 30, 2007, 2006 and 2005 were approximately \$2,187,000, \$1,908,000, and \$1,687,000 respectively, and were equal to the required contribution for those years.

The School District is not responsible for the payment of retirement benefits which is the responsibility of the State of Michigan.

Other post-employment benefits – Under the MPERS Act, all retirees have the option of continuing health, dental and vision coverage.

Whitehall District Schools
NOTES TO FINANCIAL STATEMENTS—CONTINUED
June 30, 2007

NOTE K—CONTINGENCIES

Litigation – The School District is a defendant in a lawsuit. Although the outcome of the lawsuit is not presently determinable, in the opinion of the School District’s legal counsel, the resolution of this matter will not have a material adverse effect on the financial condition of the School District.

Grant Programs – The School District participates in grant programs, which are subject to program compliance audits by the grantor or its representatives. Such audits of these programs may be performed at some future date. The amount, if any, of expenditures which may be disallowed by the granting agencies cannot be determined at this time although the School District expects such amounts, if any, to be immaterial.

NOTE L—OTHER INFORMATION

Economic Dependence – Prior years revision of the State of Michigan (State) school aid formula for local public schools significantly increased State school aid, and the change in property tax laws significantly decreased local property tax revenues. As a result, State school aid represents approximately 77 percent of General Fund revenues.

Risk Management – The School District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; error and omissions; injuries to employees; and natural disasters. The School District participates in two distinct pools of educational institutions within the State of Michigan for self-insuring property and casualty and workers’ disability compensation. The pools are considered public entity risk pools. The School District pays annual premiums under a retrospectively rated policy to the pools for the respective insurance coverage. In the event a pool’s total claims and expenses for a policy year exceed the total normal annual premiums for said years, all members of the specific pool’s policy year may be subject to special assessment to make up the deficiency. The workers’ compensation pool and the property casualty pool maintain reinsurance for claims generally in excess of \$500,000 for each occurrence with the overall maximum coverage varying depending on the specific type coverage of reinsurance.

The School District continues to carry commercial insurance for other risks of loss, including employee health and accident insurance. No settlements have occurred in excess of coverage for June 30, 2007 or any of the prior three years.

NOTE M—SUBSEQUENT EVENTS

State Aid Anticipation Note

In August 2007, the School District received the proceeds of a \$1,200,000 State of Michigan (State) school aid anticipation note payable. The note payable is not subject to redemption prior to its maturity in August 2008 and bears interest at the rate of 3.68 percent per annum. The School District pledged for payment of the note payable, the amount of state school aid to be received plus the full faith, credit, and resources of the School District.

Commitment

In August 2007, the School District approved a roofing project at the Community Services building for approximately \$165,000. The Community Education Fund and the 2001 Capital Project Fund will each pay approximately \$100,000 and \$65,000 of the cost, respectively. The project was completed in October 2007.

REQUIRED SUPPLEMENTARY INFORMATION

Whitehall District Schools
REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE
General Fund
For the year ended June 30, 2007

	Budgeted amounts			Variance with final budget - positive (negative)
	Original	Final	Actual	
REVENUES				
Local sources	\$ 3,363,882	\$ 3,425,299	\$ 3,430,587	\$ 5,288
State sources	13,329,970	13,524,152	13,464,989	(59,163)
Federal sources	554,616	546,008	536,365	(9,643)
Incoming transfers and other transactions	406,200	1,453,477	1,563,368	109,891
Total revenues	17,654,668	18,948,936	18,995,309	46,373
EXPENDITURES				
Instruction				
Basic programs	8,232,605	8,859,326	8,732,267	127,059
Added needs	2,601,676	2,530,749	2,456,761	73,988
Adult/continuing education	462,450	490,925	488,416	2,509
Support services				
Pupil	508,739	956,781	937,451	19,330
Instructional staff	231,942	491,380	498,832	(7,452)
General administration	549,245	595,402	575,486	19,916
School administration	903,358	928,230	922,087	6,143
Business	130,985	132,318	153,101	(20,783)
Operations and maintenance	2,059,948	1,944,775	1,966,909	(22,134)
Pupil transportation services	1,033,497	1,148,178	1,109,546	38,632
Central	242,452	423,932	375,254	48,678
Other	3,750	4,446	167	4,279
Outgoing transfers and other transactions	645,500	568,500	602,043	(33,543)
Total expenditures	17,606,147	19,074,942	18,818,320	256,622
Excess (deficiency) of revenues over (under) expenditures	\$ <u>48,521</u>	\$ <u>(126,006)</u>	\$ 176,989	\$ <u>302,995</u>
Fund balance at July 1, 2006			3,003,898	
Fund balance at June 30, 2007			\$ <u>3,180,887</u>	

Whitehall District Schools
REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE
Community Education Fund
For the year ended June 30, 2007

	Budgeted amounts			Variance with final budget - positive (negative)
	Original	Final	Actual	
REVENUES				
Local sources	\$ 1,010,000	\$ 966,570	\$ 1,243,904	\$ 277,334
State sources	911,200	1,228,564	1,108,933	(119,631)
Federal sources	1,470,000	1,793,000	2,070,262	277,262
Incoming transfers and other transactions	-	-	31,558	31,558
Total revenues	3,391,200	3,988,134	4,454,657	466,523
EXPENDITURES				
Adult education and support	746,500	12,500	-	12,500
Community education and enrichment	200,000	311,600	348,890	(37,290)
Early childhood	1,863,000	1,852,645	1,812,383	40,262
Work force development	826,760	849,050	879,266	(30,216)
Outgoing transfers and other transactions	-	912,477	912,477	-
Total expenditures	3,636,260	3,938,272	3,953,016	(14,744)
Excess (deficiency) of revenues over (under) expenditures	\$ <u>(245,060)</u>	\$ <u>49,862</u>	501,641	\$ <u>451,779</u>
Fund balance at July 1, 2006			<u>411,994</u>	
Fund balance at June 30, 2007			<u>\$ 913,635</u>	

OTHER SUPPLEMENTAL INFORMATION

Whitehall District Schools
COMBINING BALANCE SHEET
Other Governmental Funds
June 30, 2007

	Total other governmental funds	School Service		Debt Service				Capital Projects
		Food Service	Athletics	1992	1997	2001	2005	2001
ASSETS								
Cash and cash equivalents	\$ 1,110,693	\$ 56,521	\$ 7,269	\$ 248,146	\$ 93,706	\$ 472,010	\$ 232,964	\$ 77
Investments	188,266	-	-	-	-	-	-	188,266
Receivables	1,580	1,580	-	-	-	-	-	-
Due from other governmental units	5,045	5,045	-	-	-	-	-	-
Due from other funds	65,964	65,964	-	-	-	-	-	-
Inventories	5,602	5,602	-	-	-	-	-	-
Total assets	<u>\$ 1,377,150</u>	<u>\$ 134,712</u>	<u>\$ 7,269</u>	<u>\$ 248,146</u>	<u>\$ 93,706</u>	<u>\$ 472,010</u>	<u>\$ 232,964</u>	<u>\$ 188,343</u>
LIABILITIES AND FUND BALANCES								
Liabilities								
Accounts payable	\$ 3,443	\$ -	\$ 3,443	\$ -	\$ -	\$ -	\$ -	\$ -
Accrued liabilities	587	431	156	-	-	-	-	-
Due to other funds	54,807	-	-	11,694	8,281	22,860	11,972	-
Deferred revenue	3,146	3,146	-	-	-	-	-	-
Total liabilities	<u>61,983</u>	<u>3,577</u>	<u>3,599</u>	<u>11,694</u>	<u>8,281</u>	<u>22,860</u>	<u>11,972</u>	<u>-</u>
Fund balances								
Reserved								
Inventories	5,602	5,602	-	-	-	-	-	-
Debt service	992,019	-	-	236,452	85,425	449,150	220,992	-
Capital projects	188,343	-	-	-	-	-	-	188,343
Unreserved								
Undesignated	129,203	125,533	3,670	-	-	-	-	-
Total fund balances	<u>1,315,167</u>	<u>131,135</u>	<u>3,670</u>	<u>236,452</u>	<u>85,425</u>	<u>449,150</u>	<u>220,992</u>	<u>188,343</u>
Total liabilities and fund balances	<u>\$ 1,377,150</u>	<u>\$ 134,712</u>	<u>\$ 7,269</u>	<u>\$ 248,146</u>	<u>\$ 93,706</u>	<u>\$ 472,010</u>	<u>\$ 232,964</u>	<u>\$ 188,343</u>

Whitehall District Schools
**COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES**
Other Governmental Funds
For the year ended June 30, 2007

	Total other governmental funds	School Service		Debt Service				Capital Projects
		Food Service	Athletics	1992	1997	2001	2005	2001
REVENUES								
Local sources								
Property taxes	\$ 2,996,645	\$ -	\$ -	\$ 711,467	\$ 382,308	\$ 1,276,991	\$ 625,879	\$ -
Investment earnings	62,667	3,187	1,310	9,131	5,154	21,500	12,781	9,604
Fees and charges	438,428	380,669	57,759	-	-	-	-	-
Other	9,076	2,763	6,313	-	-	-	-	-
Total local sources	3,506,816	386,619	65,382	720,598	387,462	1,298,491	638,660	9,604
State sources	31,350	31,350	-	-	-	-	-	-
Federal sources	351,697	351,697	-	-	-	-	-	-
Total revenues	3,889,863	769,666	65,382	720,598	387,462	1,298,491	638,660	9,604
EXPENDITURES								
Food service	687,122	687,122	-	-	-	-	-	-
Athletics	418,063	-	418,063	-	-	-	-	-
Debt service								
Principal	1,015,252	-	-	215,252	80,000	650,000	70,000	-
Interest and other charges	1,910,102	-	-	320,748	367,623	497,638	724,093	-
Capital projects	64,248	-	-	-	-	-	-	64,248
Total expenditures	4,094,787	687,122	418,063	536,000	447,623	1,147,638	794,093	64,248
Excess (deficiency) of revenues over (under) expenditures	(204,924)	82,544	(352,681)	184,598	(60,161)	150,853	(155,433)	(54,644)
OTHER FINANCING SOURCES (USES)								
Transfers in	354,676	-	354,676	-	-	-	-	-
Total other financing sources (uses)	354,676	-	354,676	-	-	-	-	-
Net change in fund balances	149,752	82,544	1,995	184,598	(60,161)	150,853	(155,433)	(54,644)
Fund balances at July 1, 2006	1,165,415	48,591	1,675	51,854	145,586	298,297	376,425	242,987
Fund balances at June 30, 2007	\$ 1,315,167	\$ 131,135	\$ 3,670	\$ 236,452	\$ 85,425	\$ 449,150	\$ 220,992	\$ 188,343

BRICKLEY DELONG

CERTIFIED PUBLIC ACCOUNTANTS

October 24, 2007

Board of Education
Darlene Dongvillo
Whitehall District Schools
Whitehall, Michigan

In planning and performing our audit of the financial statements of Whitehall District Schools as of and for the year ended June 30, 2007, in accordance with auditing standards generally accepted in the United States of America, we considered Whitehall District Schools' internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we do not express an opinion on the effectiveness of the entity's internal control.

A *control deficiency* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A *significant deficiency* is a control deficiency, or a combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A *material weakness* is a significant deficiency, or a combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of internal control was for the limited purpose described in the first paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. In addition, because of inherent limitations in internal control, including the possibility of management override of controls, misstatements due to error or fraud may occur and not be detected by such controls. We did not identify any deficiencies in internal control that we consider to be material weaknesses, as defined above. However, we identified the attached deficiency in internal control that we consider to be a significant deficiency.

This communication is intended solely for the information and use of the Board of Education, management, others within the Organization, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.



SIGNIFICANT DEFICIENCIES

Recommendation 1: Community Education compliance with the School District's cash receipts and grants receivable procedures should be improved.

During our detailed audit tests, we noted two types of noncompliance by Community Education staff with the School District's established cash receipts policies and procedures. First, we noted that a program manager received and held two checks received for program reimbursements aggregating \$55,896 for several weeks in August 2007, before forwarding them to the Community Education accountant to be deposited in the bank and to be recorded in the general ledger. The effect was not only the delay in depositing and recording the receipt, but also Community Education staff failed to record the associated grant revenue as of June 30, 2007. Second, we noted two additional grant receipts received in August 2007 aggregating \$39,725 which should initially have been recorded as grants receivable with associated grant revenue as of June 30, 2007.

Compliance by Community Education staff with established School District cash receipts policies and procedures would reduce the opportunities for cash receipts to be lost or stolen and for grant revenues to be recorded in the improper period.

Whitehall District Schools
**SINGLE AUDIT OF FEDERAL
FINANCIAL ASSISTANCE PROGRAMS**

Financial Report and
Independent Auditors' Reports

June 30, 2007

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BRICKLEY DeLONG

CERTIFIED PUBLIC ACCOUNTANTS

**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

October 24, 2007

Board of Education
Whitehall District Schools
Whitehall, Michigan

We have audited the financial statements of Whitehall District Schools as of and for the year ended June 30, 2007 and have issued our report thereon dated October 24, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Whitehall District Schools' internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Whitehall District Schools' internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Whitehall District Schools' internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified a deficiency in internal control over financial reporting that we consider to be a significant deficiency.

A *control deficiency* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiency described in the accompanying Schedule of Findings and Responses, as Finding 1, to be a significant deficiency in internal control over financial reporting.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Board of Education
October 24, 2007
Page 2

Internal Control Over Financial Reporting—Continued

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that the significant deficiency described above is not a material weakness.

Compliance

As part of obtaining reasonable assurance about whether Whitehall District Schools' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Whitehall District Schools' response to the findings identified in our audit are described in the accompanying Schedule of Findings and Responses. We did not audit Whitehall District Schools' response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the Board of Education, management, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Brickley DeLong, PLLC

BRICKLEY DELONG

CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

October 24, 2007

Board of Education
Whitehall District Schools
Whitehall, Michigan

Compliance

We have audited the compliance of Whitehall District Schools with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2007. Whitehall District Schools' major federal programs are identified in the Summary of Auditors' Results section of the accompanying Schedule of Findings and Responses. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of Whitehall District Schools' management. Our responsibility is to express an opinion on Whitehall District Schools' compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Whitehall District Schools' compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Whitehall District Schools' compliance with those requirements.

In our opinion, Whitehall District Schools complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2007.

Board of Education
October 24, 2007
Page 2

Internal Control Over Compliance

The management of Whitehall District Schools is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered Whitehall District Schools' internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Whitehall District Schools' internal control over compliance.

A *control deficiency* in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

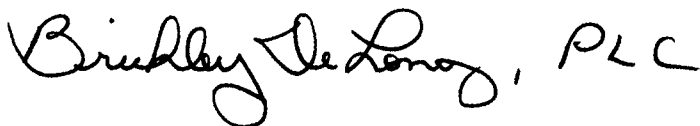
A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

Our consideration of the internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

Schedule of Expenditures of Federal Awards

We have audited the financial statements of Whitehall District Schools as of and for the year ended June 30, 2007 and have issued our report thereon dated October 24, 2007. Our audit was performed for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

This report is intended solely for the information and use of the Board of Education, management, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Brickley DeLong, PLC

Whitehall District Schools
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the year ended June 30, 2007

Federal grantor/pass-through grantor/program title	Federal CFDA number	Entitlement program or award amount	Accrued (deferred) revenue July 1, 2006	Cash or payments in kind received (cash basis)	Expenditures (accrual basis)			Accrued (deferred) revenue June 30, 2007
					Prior year	Current year	Total	
<i>U.S. Department of Education</i>								
Passed through Michigan Department of Education:								
Title I Part A	84.010							
0615300506		\$ 275,045	\$ 186,445	\$ 198,061	\$ 263,429	\$ 11,616	\$ 275,045	\$ -
0715300607		278,093	-	153,798	-	253,533	253,533	99,735
		553,138	186,445	351,859	263,429	265,149	528,578	99,735
Title I Part D	84.010							
0617000506		53,453	53,453	53,453	53,453	-	53,453	-
0717000607		36,945	-	36,945	-	36,945	36,945	-
		90,398	53,453	90,398	53,453	36,945	90,398	-
Title V LEA Allocation	84.298							
0702500607		1,966	-	1,966	-	1,966	1,966	-
Technology Literacy Challenge Grants	84.318							
0642900506		5,131	2,081	2,081	4,876	255	5,131	255
0742900607		2,838	-	2,838	-	2,838	2,838	-
		7,969	2,081	4,919	4,876	3,093	7,969	255
Improving Teacher Quality	84.367							
0605200506		89,540	62,909	62,909	89,540	-	89,540	-
0705200607		88,696	-	53,613	-	84,742	84,742	31,129
		178,236	62,909	116,522	89,540	84,742	174,282	31,129
Emergency Impact Aid - Hurricane Katrina Grant	84.398							
0641201		609	444	609	444	165	609	-
Total passed through Michigan Department of Education		832,316	305,332	566,273	411,742	392,060	803,802	131,119
Passed through Muskegon Area Intermediate School District:								
Adult Education	84.002							
610586		22,094	2,294	2,294	22,094	-	22,094	-
710587		20,765	-	10,794	-	20,765	20,765	9,971
		42,859	2,294	13,088	22,094	20,765	42,859	9,971
I.D.E.A 101-476	84.027							
0456		129,466	122,855	122,855	122,855	-	122,855	-
7302		33,000	-	-	-	33,000	33,000	33,000
7300		84,720	-	-	-	84,720	84,720	84,720
		247,186	122,855	122,855	122,855	117,720	240,575	117,720
Drug Free Schools	84.186							
0728600506		6,987	-	6,987	-	6,987	6,987	-
Total passed through Muskegon Area Intermediate School District		297,032	125,149	142,930	144,949	145,472	290,421	127,691
Total U.S. Department of Education		1,129,348	430,481	709,203	556,691	537,532	1,094,223	258,810

Whitehall District Schools
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the year ended June 30, 2007

Federal grantor/pass-through grantor/program title	Federal CFDA number	Entitlement program or award amount	Accrued (deferred) revenue July 1, 2006	Cash or payments in kind received (cash basis)	Expenditures (accrual basis)			Accrued (deferred) revenue June 30, 2007
					Prior year	Current year	Total	
<i>U.S. Department of Agriculture</i>								
Passed through Michigan Department of Education:								
National School Lunch and Breakfast								
Entitlement commodities	10.550	\$ 29,118	\$ -	\$ 29,118	\$ -	\$ 29,118	\$ 29,118	\$ -
Bonus commodities		987	-	987	-	987	987	-
		30,105	-	30,105	-	30,105	30,105	-
Child Nutrition Cluster								
061970 Breakfast	10.553	48,961	-	4,950	44,011	4,950	48,961	-
071970 Breakfast		53,010	-	53,010	-	53,010	53,010	-
		101,971	-	57,960	44,011	57,960	101,971	-
061950 Lunches	10.555	47,403	-	5,548	41,855	5,548	47,403	-
071950 Lunches		44,368	-	44,368	-	44,368	44,368	-
061960 Free and reduced		195,551	-	22,935	172,616	22,935	195,551	-
071960 Free and reduced		190,782	-	190,782	-	190,782	190,782	-
		478,104	-	263,633	214,471	263,633	478,104	-
061920 Child Care Food	10.558	8,680	-	1,223	7,457	1,223	8,680	-
071920 Child Care Food		8,866	-	8,866	-	8,866	8,866	-
		17,546	-	10,089	7,457	10,089	17,546	-
Total Child Nutrition Cluster		597,621	-	331,682	265,939	331,682	597,621	-
Total U.S. Department of Agriculture		627,726	-	361,787	265,939	361,787	627,726	-
<i>U.S. Department of Health and Human Services</i>								
Passed through County of Muskegon:								
TANF	93.558							
05-06 Case Management		156,113	22,648	22,648	156,113	-	156,113	-
05-06 Support Services		125,101	26,419	26,419	125,101	-	125,101	-
06-07 Case Management		158,052	-	130,260	-	158,052	158,052	27,792
06-07 Support Services		178,171	-	149,895	-	178,171	178,171	28,276
Total passed through County of Muskegon		617,437	49,067	329,222	281,214	336,223	617,437	56,068
Passed through Muskegon Area								
Intermediate School District:								
Head Start	93.600							
05CH8258/07		858,328	178,932	511,585	464,180	394,148	858,328	61,495
05CH8258/08		793,433	-	334,008	-	492,983	492,983	158,975
		1,651,761	178,932	845,593	464,180	887,131	1,351,311	220,470
Medical Assistance Program Title XIX	93.778							
Transportation & Outreach		19,598	-	19,598	-	19,598	19,598	-
Total passed through Muskegon Area								
Intermediate School District		1,671,359	178,932	865,191	464,180	906,729	1,370,909	220,470
Total U.S. Department of Health and Human Services		2,288,796	227,999	1,194,413	745,394	1,242,952	1,988,346	276,538

Whitehall District Schools
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS—CONTINUED
For the year ended June 30, 2007

Federal grantor/pass-through grantor/program title	Federal CFDA number	Entitlement program or award amount	Accrued (deferred) revenue July 1, 2006	Cash or payments in kind received (cash basis)	Expenditures (accrual basis)			Accrued (deferred) revenue June 30, 2007
					Prior year	Current year	Total	
<i>U.S. Department of Labor</i>								
Passed through County of Muskegon:								
Wagner Peyser	17.207							
403939/WP/03-05		\$ 37,059	\$ 4,918	\$ 4,918	\$ 37,059	\$ -	\$ 37,059	\$ -
403939/WP/06-08		34,338	-	23,030	-	34,338	34,338	11,308
		71,397	4,918	27,948	37,059	34,338	71,397	11,308
Workforce Investment Act Cluster								
Adult Program	17.258							
403939/WR-05		277,306	80,014	80,014	277,306	-	277,306	-
403939/WIA-04/05		404,071	54,065	54,065	404,071	-	404,071	-
403939/WIA-06/07		486,054	-	419,504	-	486,054	486,054	66,550
		1,167,431	134,079	553,583	681,377	486,054	1,167,431	66,550
Youth Activities	17.259							
403939/WIA-04/05		30,363	3,851	3,851	30,363	-	30,363	-
403939/WIA-06/07		105,611	-	69,757	-	105,611	105,611	35,854
		135,974	3,851	73,608	30,363	105,611	135,974	35,854
Dislocated Workers	17.260							
403939/WIA-04/05		68,925	15,591	15,591	68,925	-	68,925	-
403939/WIA-06/07		190,050	-	112,019	-	190,050	190,050	78,031
		258,975	15,591	127,610	68,925	190,050	258,975	78,031
Total WIA Cluster		1,562,380	153,521	754,801	780,665	781,715	1,562,380	180,435
Total passed through County of Muskegon and U.S. Department of Labor		1,633,777	158,439	782,749	817,724	816,053	1,633,777	191,743
Total Federal Financial Assistance		\$ 5,679,647	\$ 816,919	\$ 3,048,152	\$ 2,385,748	\$ 2,958,324	\$ 5,344,072	\$ 727,091

The accompanying notes are an integral part of this statement.

Whitehall District Schools
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year ended June 30, 2007

1. Please see the financial statement footnotes for the significant accounting policies used in preparing this schedule.
2. Management has utilized the Grants Section Auditors Report (Form R7120) in preparing the Schedule of Expenditures of Federal Awards.
3. Reconciliation of revenues from federal sources per governmental funds financial statements and expenditures per single audit report Schedule of Expenditures of Federal Awards.

Revenues from federal sources per June 30, 2007

Governmental Funds financial statements

General Fund	\$ 536,365
Community Education Fund	2,070,262
Other governmental funds (includes Food Service Fund)	<u>351,697</u>

Expenditures per single audit report

Schedule of Expenditures of Federal Awards	\$ <u><u>2,958,324</u></u>
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Whitehall District Schools
SCHEDULE OF FINDINGS AND RESPONSES
Year ended June 30, 2007

A. SUMMARY OF AUDITORS' RESULTS

1. The auditors' report expresses an unqualified opinion on the financial statements of Whitehall District Schools.
2. *One (1)* significant deficiency disclosed during the audit of the financial statements is reported in the Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards* and is reported in Part B of this schedule. This significant deficiency is not reported as a material weakness.
3. *No* instances of noncompliance material to the financial statements of Whitehall District Schools were disclosed during the audit as reported in Part B of this schedule.
4. There were *no* significant deficiencies disclosed during the audit of the major federal award programs as reported in the Independent Auditors' Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control over Compliance in Accordance with OMB Circular A-133 and as reported in Part B of this schedule.
5. The auditors' report on compliance for the major federal award programs for Whitehall District Schools expresses an unqualified opinion.
6. Audit findings that are required to be reported in accordance with Section 510(a) of OMB Circular A-133 are reported in this schedule.
7. The programs tested as major programs were:

<u>Name</u>	<u>CFDA Number</u>
<i>U.S. Department of Agriculture</i> Child Nutrition Cluster	10.553, 10.555 and 10.558
<i>U.S. Department of Education</i> Title I	84.010
<i>U.S. Department of Health and Human Services</i> Head Start	93.600

8. The threshold for distinguishing Types A and B programs was \$300,000.
9. Whitehall District Schools was determined to be a low-risk auditee.

Whitehall District Schools
SCHEDULE OF FINDINGS AND RESPONSES—CONTINUED
Year ended June 30, 2007

B. FINDINGS RELATING TO THE AUDIT OF THE FINANCIAL STATEMENTS, WHICH ARE REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS

COMPLIANCE

NONE

SIGNIFICANT DEFICIENCIES

Fiscal 2007 Finding No. 1: Community Education Cash Receipts Procedures

Criteria: Cash receipts should be timely deposited and recorded in the general ledger, and grant revenue should be recorded in the proper period.

Conditions: First, we noted that a Community Education program manager received and held two checks for program reimbursements aggregating \$55,896 for several weeks in August 2007 before forwarding them to the Community Education accountant to be deposited in the bank and to be recorded in the general ledger. Second, we noted two additional grant receipts received in August 2007 aggregating \$39,725 which should have been recorded as grants receivable with the associated grant revenue as of June 30, 2007.

Effect: The two checks held and not deposited/recorded timely in the amount of \$55,896 increased the opportunity for the checks to be lost or stolen. All four cash receipts aggregating \$95,621 failed to be initially recorded as grants receivable with the associated grant revenue in the year ended June 30, 2007.

Questioned Costs: None

Recommendation: Community Education compliance with the School District's cash receipts policies and procedures should be improved.

School District Response: The School District's administration has advised Community Education staff to comply with established policies and procedures for depositing cash receipts and for recording cash receipts and grants receivable.

C. FINDINGS RELATING TO THE MAJOR FEDERAL AWARD PROGRAMS AUDIT, WHICH ARE REQUIRED TO BE REPORTED IN ACCORDANCE WITH OMB CIRCULAR A-133

COMPLIANCE

NONE

SIGNIFICANT DEFICIENCIES

NONE

CLIENT DOCUMENTS

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

October 24, 2007

Michigan Board of Education
Lansing, Michigan

Whitehall District Schools respectfully submits the following summary of the current status of prior audit findings contained in the single audit report for the year ended June 30, 2006 dated October 26, 2006.

B. FINDINGS—FINANCIAL STATEMENT AUDIT

COMPLIANCE

There were *no* compliance findings in relation to the financial statement audit.

REPORTABLE CONDITIONS:

Fiscal 2006 Finding No. 1: Coding of Transactions Procedures

Condition: We noted numerous transactions were recorded in general ledger accounts not consistent with the State of Michigan standard chart of accountants.

Recommendation: Transactions should be coded to general ledger accounts in accordance with the State of Michigan standard chart of accounts.

Current Status: This recommendation was implemented during the year ended June 30, 2007. No similar finding was reported during the single audit for the year ended June 30, 2007.

Fiscal 2006 Finding No. 2: Student Activity Fund Cash procedures

Condition: We noted 9 of 32 cash disbursements and 11 of 15 cash receipts tested did not have adequate supporting documentation for such transactions.

Recommendation: Student activity fund transactions need proper documentation to support each transaction.

Current Status: This recommendation was implemented during the year ended June 30, 2007. No similar finding was reported during the single audit for the year ended June 30, 2007.

C. FINDINGS—MAJOR FEDERAL AWARD PROGRAMS

COMPLIANCE

There were *no* compliance findings reported in relation to major federal award programs.

SIGNIFICANT DEFICIENCIES

There were *no* significant deficiencies reported in relation to major federal award programs.

Sincerely,

A handwritten signature in black ink that reads "Christine M. Annese". The signature is written in a cursive style with a large initial "C" and a distinct "M" and "A".

Christine M. Annese
Assistant Superintendent

CORRECTIVE ACTION PLAN

October 24, 2007

Michigan Board of Education
Lansing, Michigan

Whitehall District Schools respectfully submits the following Corrective Action Plan for the year ended June 30, 2007.

Name and address of independent public accounting firm:

Brickley DeLong, PLC
P.O. Box 999
Muskegon, Michigan 49443

Audit period: June 30, 2007

The findings from the Schedule of Findings and Responses for the year ended June 30, 2007 are discussed below. The findings are numbered consistently with the numbers assigned in the schedule.

B. FINDINGS—FINANCIAL STATEMENT AUDIT

COMPLIANCE

There were *no* compliance findings reported in relation to the financial statement audit.

SIGNIFICANT DEFICIENCIES

Fiscal 2007 Finding No. 1: Community Education Cash Receipts Procedures

Recommendation: Community Education compliance with the School District's cash receipts and grants receivable procedures should be improved.

Action Taken: The School District's administration has advised Community Education staff to comply with established policies and procedures for depositing cash receipts and for recording cash receipts and grants receivable.

C. FINDINGS—MAJOR FEDERAL AWARD PROGRAMS

COMPLIANCE

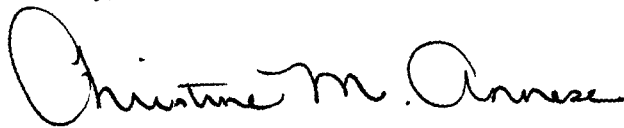
There were *no* compliance findings reported in relation to major federal award programs.

SIGNIFICANT DEFICIENCIES

There were *no* significant deficiencies reported in relation to major federal award programs.

If the Michigan Board of Education has questions regarding this plan, please call Christine M. Annese at (231) 893-1000.

Sincerely,

A handwritten signature in black ink that reads "Christine M. Annese". The signature is written in a cursive, flowing style.

Christine M. Annese
Assistant Superintendent